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MEMORANDUM

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TO: Docket Control Center
Arizona Corporation Commission

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FROM: Ernest G. Johnson
Director
Utilities Division

DATE: October 13, 2006

RE: STAFF REPORT ANALYZING THE MERITS OF TUCSON ELECTRIC
POWER COMPANY'S APPLICATION FOR EXTENSION OF TIME ON THE
CERTIFICATE OF ENVIRONMENTAL COMPATIBILITY GRANTED IN
DOCKET NO. L-00000C-95-0084-00000

Attached is the Staff Report that considers the merits of granting a time extension to a transmission line Certificate of Environmental Compatibility ("CEC") as requested by Tucson Electric Power Company ("TEP"). Utilities Division Staff ("Staff") concludes that a reasonable presumption of need continues to exist for the certificated Phase Two 138 kV transmission line. Staff also finds that TEP is compliant with its CEC conditions for the transmission facilities currently constructed and with Decision No. 68799. However, TEP is at risk of not being in compliance with its CEC conditions for portions of the Phase Two line not yet constructed.

Therefore, Staff recommends the Commission conditionally grant TEP's requested extension of the expiration date of its CEC to 2013. Staff further recommends that the Commission approve amendment of the CEC with conditions provided in EXHIBIT B of this report. Such conditions are necessary to achieve the original purpose of the CEC certificated transmission facilities given TEP's system service capability prevailing today and projected to exist in the foreseeable future.

EGJ:JDS:mfs

Originator: Jerry D. Smith

Arizona Corporation Commission
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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**


**TUCSON ELECTRIC POWER COMPANY
DOCKET NO. L-00000C-95-0084**

APPLICATION FOR CEC EXPIRATION EXTENSION

OCTOBER 13, 2006

STAFF ACKNOWLEDGMENT

This Staff Report was prepared by Jerry Smith of the Arizona Corporation Commission Utilities Division. It considers the merits of granting an expiration extension to a transmission line CEC as requested by Tucson Electric Power Company. In the conclusions of this report, Staff proffers a recommendation to extend the CEC expiration date with modified and new conditions.



for Jerry D. Smith
Electric Utility Engineer

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PURPOSE OF STAFF REPORT

On December 21, 2005, Tucson Electric Power Company ("TEP") filed a request for a time extension to construct a portion of the transmission facilities approved by the subject Certificate of Environmental Compatibility ("CEC"). TEP's authorization to construct those transmission facilities was originally granted by Arizona Corporation Commission ("ACC" or "Commission") in Decision No. 59221. TEP offered two reasons for its requested time extension. First, TEP was in condemnation proceedings with Marley Cattle Company for an easement needed to complete construction of the certificated project. Secondly, TEP stated load growth in the vicinity of its Green Valley Substation was actually lower than anticipated a decade ago. TEP indicated that a time extension would facilitate consideration of alternative system solutions more suited to currently prevailing conditions.

On June 27, 2006, the Commission extended the expiration date of TEP's CEC to December 31, 2006 via Decision No. 68799. This time extension was expressly for the purpose of allowing sufficient time for conclusion of TEP's condemnation proceedings with Marley Cattle Company and allowing TEP sufficient time to perform due diligence regarding possible alternative system improvements. It also allowed Staff sufficient time to ascertain the level of CEC compliance already achieved by TEP and to file a responsive Staff Report.

This Staff Report considers the merits of TEP's original request for extension of the CEC expiration date to June 27, 2013. This Staff Report is also filed in response to the August 31, 2006, TEP report as required by Decision No. 68799. TEP's report forms the core foundation for Staff's assessment. Staff's assessment considers the presumption of need for the CEC authorized facilities and the status of TEP's compliance with the CEC and subsequent Commission Decisions. In the conclusions of this report, Staff proffers a recommendation to extend the CEC expiration date with modified and new conditions. If the Commission approves the requested extension with Staff's recommended conditions, TEP's failure to comply with such new and pre-existing CEC conditions could be considered grounds for the Commission to take appropriate action concerning TEP's CEC, including but not limited to revocation.

TEP COMPLIANCE STATUS

The CEC granted by Decision No. 59221 authorizes construction of a new 138 kV transmission line from TEP's South Substation to the Cyprus Sierrita Substation via an expanded 138 kV Green Valley Substation. The portion of the new transmission line between Green Valley Substation and Cyprus Sierrita Substation is defined by the CEC as Phase Two. Condition No. 3 of the CEC imposed a deadline for completing Phase Two of the project. Construction of Phase Two was to commence no later than June 27, 2005 (ten years from the date the CEC was granted). In addition, Phase Two was to be completed within one year of the date that construction was started.

TEP reports that it began construction on 4.7 miles of the Phase Two transmission line between Green Valley Substation and the existing Cyprus Raw Water Substation on June 27, 2005.¹ Construction of that portion of the Phase Two line is now complete. The remaining portion of the Phase Two line (8.5 miles) has been stalled by condemnation proceedings with Marley Cattle Company for an easement needed to complete construction of the Phase Two line. For this reason TEP knew it could not fulfill the requirements of CEC Condition No. 3 by June 27, 2006. Furthermore, prevailing and forecasted load conditions² in the Green Valley area have influenced TEP's view of when the line now needs to be completed. Therefore, TEP chose to request a time extension for its CEC until June 27, 2013.

The Commission granted a temporary CEC time extension until December 31, 2006, in Decision No. 68799. That Decision also required TEP to file a report with Staff by August 31, 2006 that addressed: 1) the status of its condemnation proceeding with Marley Cattle Company; 2) forecasts when additional Phase Two facilities are now needed; and 3) the findings of any and all system improvements considered as an alternative to the portion of the certificated Phase Two Project not yet constructed. TEP filed the required report with the Commission on August 31, 2006.

TEP reported in its August 31, 2006 compliance filing that a Notice of Settlement and Notice of Dismissal concerning the condemnation proceeding with Marley Cattle Company was filed with the Court on June 15, 2006.³ Nevertheless, it is Staff's opinion that construction of the remaining portion of the Phase Two line will not be completed by December 31, 2006. Therefore, a time extension beyond December 31, 2006, is required if TEP is to remain compliant with the conditions of the CEC.

Decision No. 68799 required TEP to file in its report the findings of any and all system improvements considered as an alternative to the portion of the certificated Phase Two Project not yet constructed⁴. TEP did incorporate the adoption of an alternative in its report that defers construction of the remaining portion of the Phase Two line between Green Valley Substation and Cyprus Sierrita Substation until 2013. This alternative perpetuates a practice of relying on restorative service to customers following an outage of either of two radial 138 kV transmission lines in the area. While such an alternative is responsive to Decision No. 68799, it raises the question of the original justification of need for the Phase Two facilities.

PRESUMPTION OF NEED

Exhibit A of this report is a system diagram of the Green Valley Area 138 kV and 46 kV transmission system reported by TEP. TEP plans to begin using the newly constructed portion of the Phase Two 138 kV line between Green Valley and Cyprus Raw Water Substation to serve a

¹ TEP Request for Extension of Time on the Certificate of Environmental Compatibility, December 21, 2005.

² Exhibit B, TEP Compliance Filing Pursuant to Decision No. 68799, August 31, 2006.

³ Exhibit A, TEP Compliance Filing Pursuant to Decision No. 68799, August 31, 2006.

⁴ Finding No. 8, Decision No. 68799, June 27, 2006.

new Canoa Ranch Substation in 2009. Then TEP plans to commence construction of the remainder of the Phase Two 138 kV line between Canoa Ranch and Cyprus Sierrita Substation in 2012 with project completion expected in 2013.

Cyprus Sierrita Substation will continue to be served via a radial 138 kV line from South Substation until Phase Two construction is completed. Similarly, Green Valley and Canoa Ranch Substations will continue to be served via a second radial 138 kV line from South until the Phase Two construction is completed. TEP's 46 kV system provides a means of restoring service to customers for the loss of either radial 138 kV line. Two radial 46 kV lines connected at South Substation provide this system restoration capability at Green Valley, Cyprus Raw Water, Cyprus Esparanza, and Canoa Substations.

TEP reports that, as early as 2009, its 46 kV system lacks sufficient transformer capacity to meet the full backup requirements of the Green Valley and Canoa Substations for loss of the radial 138 kV line from South Substation. However, TEP's assessment is that the annual hours during which its 46 kV system is incapable of fully restoring service to Green Valley and Canoa Ranch customers will grow from zero hours in 2009 to 100 hours by 2013. TEP postulates that the likelihood of a 138 kV line outage occurring during a time period of limited 46 kV system backup capability is extremely remote. Therefore, TEP concludes completion of the not yet constructed Phase Two line is not required until June 27, 2013.

It would appear there has been a shift in the presumption of need originally proffered by TEP in its CEC application for a new 138 kV line from South Substation to Cyprus Sierrita Substation through an expanded 138 kV Green Valley Substation. The line as originally certificated served two purposes: 1) it provided 138 kV transmission service to a growing Green Valley area and 2) it increased service reliability by providing looped 138 kV transmission service for both the Green Valley Substation and the Cyprus Sierrita Substation. Looped transmission service pre-empts the need to rely on time consuming restoration of service via the 46 kV or 138 kV systems following a transmission line outage.

The first purpose of the certificated transmission project was achieved by the initial construction of the 138 kV line from South Substation to Green Valley Substation. That purpose will be bolstered when Canoa Ranch Substation is placed in service in 2009. Canoa Ranch Substation will make use of that portion of the Phase Two line that was completed in 2006.

On the other hand, achievement of the second purpose of the certificated project can only be accomplished by completion of the Phase Two construction. TEP proposes to defer construction of the portion of the Phase Two line between Canoa Ranch Substation and Cyprus Sierrita Substation until 2013. This implies TEP now believes restoration of service via its 46 kV and 138 kV systems for a 138 kV transmission line outage is an acceptable and desirable alternative to looped 138 kV transmission service. Staff is of the opinion that this shift in presumption of need for looped 138 kV service is not well founded.

ADDITIONAL CONDITIONS NEEDED

Since TEP has resolved its easement requirements with Marley Cattle Company it could commence construction of the remaining portion of the Phase Two 138 kV line. However, it would not meet the current conditions of its CEC to complete such construction within one year of the date construction of Phase Two commenced (reported by TEP as July 27, 2005). Furthermore, Staff is not convinced that TEP's proposed deferral of construction completion of the remaining portion of the Phase Two line until 2013 is well founded.

Staff is of the opinion that the Commission should not endorse any utility's adoption of a practice that would defer construction of transmission facilities beyond a date at which it would not have the ability to serve all of its customers following a single transmission line outage. This principle has been at the core of policy debate in the quality of service proceedings in Santa Cruz County for TEP's affiliate Unisource Energy Services ("UNES"). Restoration of service to a portion of Santa Cruz County customers for loss of the 115 kV line to Nogales is dependent upon emergency service via a 46 kV tie line interconnected at TEP's Canoa Substation. Therefore TEP's 46 kV system out of South Substation provides emergency backup service to both its Green Valley area and Santa Cruz County.

It was established in the most recent quality of service proceedings for Santa Cruz County that the UNES 115 kV line to Nogales traverses the eastern portion of TEP's Green Valley service area. In fact, UNES 115 kV line is just a couple of miles east of TEP's 138 kV line from South Substation to Green Valley Substation. Historical evidence reflects that outages of UNES 115 kV line, TEP's 138 kV line to Green Valley Substation and TEP's 46 kV lines out of South substation are largely due to weather. Given that these facilities traverse a common and relatively small geographical footprint, they are collectively exposed to the same weather related events. There has been no evidence that TEP's 46 kV system out of South Substation is sufficiently robust to concurrently serve as an emergency backup to loss of TEP's 138 kV line and the UNES 115 kV line.

Staff proposes to remedy the above concerns by amendment of the original CEC conditions with new language that is more prescriptive in content. This will assure the original purpose of the CEC authorized transmission facilities is achieved in a timely manner. In addition, new conditions are proposed for the purpose of assuring that emergency restoration of service is maintained concurrently for all TEP Green Valley area customers and all UNES Santa Cruz County customers.

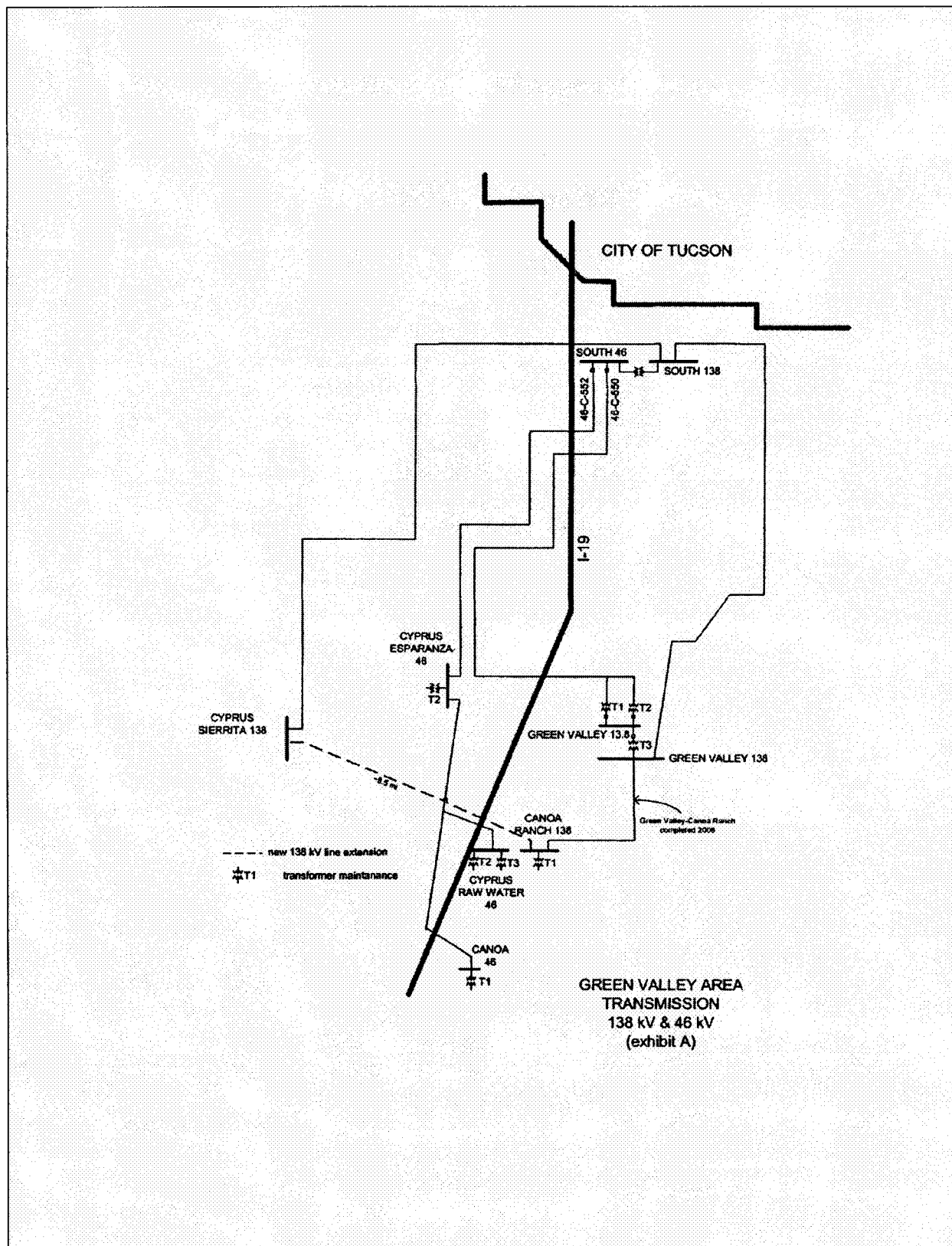
STAFF CONCLUSIONS AND RECOMMENDATION

Staff concludes that a reasonable presumption of need continues to exist for the certificated Phase Two 138 kV transmission line. However, Staff disagrees with TEP's shift in presumption of need for looped 138 kV service in its Green Valley area in favor of perpetuating emergency restoration of service via its 46 kV system. Therefore, Staff proposes new conditions

to assure adequate quality of service is timely achieved and maintained for all consumers in the area.

Staff further concludes TEP has been compliant with its CEC conditions for transmission facilities currently constructed. TEP is also compliant with Decision No. 68799. However, TEP is at risk of not being in compliance with its CEC conditions for portions of the Phase Two line not yet constructed. Therefore, Staff offers revisions to the original CEC conditions as a remedy

Staff recommends the Commission conditionally grant TEP's requested extension of the expiration date of its CEC to, June 27, 2013. Staff further recommends that the Commission approve amendment of the CEC with conditions provided in EXHIBIT B of this report. Such conditions are necessary to achieve the original purpose of the CEC certificated transmission facilities given TEP's system service capability prevailing today and projected to exist in the foreseeable future.



TUCSON ELECTRIC POWER COMPANY
PROPOSED NEW AND AMENDED CEC CONDITIONS
DOCKET NO. L-00000C-95-00084
October 13, 2006

Staff recommends Commission adoption of the following language concerning amended and new conditions for TEP's South Substation to Cyprus Sierrita Substation 138 kV Transmission CEC:

The Commission modifies the CEC by replacing the language of Condition 3 as follows:

3. That the Applicant: a) must complete construction of Phase Two of said transmission line, being that portion between Green Valley and Cyprus Sierrita Substations, no later than June 27, 2013, and b) complete construction of that portion of the Phase Two line between Canoa Ranch Substation and Cyprus Sierrita Substation within one year of commencing of construction. The Applicant shall have the right to apply to the Corporation Commission for an extension of these time limitations, to be exercised at any time at the Applicant's option.

In extending the expiration date of the existing CEC approved in Decision No. 59221 the Commission adds the following four new conditions:

4. The Applicant shall annually submit by April 30, commencing in 2007, a summer preparedness report to Docket Control that documents the ability of TEP's Green Valley area 46 kV system to timely restore service to: a) all customers served from Green Valley Substation and Canoa Ranch Substation following outage of the 138 kV South to Green Valley line outage, b) 20 megawatts of UNES customers via the 46 kV tie from Canoa Substation to Cañez Substation for an outage of the UNES 115 kV line to Nogales, and c) all TEP customers and 20 MW of UNES customers for the concurrent outage of the South to Green Valley 138 kV line and the UNES 115 kV line to Nogales.
5. Condition 4(a) shall remain in effect until the 138 kV line is operational between Canoa Ranch Substation and Cyprus Sierrita Substation.
6. Condition 4(b) shall remain in effect until a second UNES transmission line is operational in Santa Cruz County.
7. TEP must complete construction of the Canoa Ranch to Cyprus Sierrita portion of the Phase Two 138 kV line prior to the date that the summer preparedness report required in Condition 4 would indicate TEP's 46 kV system is no longer capable of assuring full restoration of service following a transmission outage.